

TOWN OF BLANDFORD,
MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2002

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MH&Co

MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

51 Davis Street • Suite 1
Greenfield, MA 01301-2422
Tel (413)773-5405 • Fax (413)773-7304
www.melansonheath.com

To The Board of Selectmen
Town of Blandford, Massachusetts

We have audited the general purpose financial statements of the Town of Blandford, Massachusetts as of and for the year ended June 30, 2002 and have issued our report thereon dated May 2, 2003. As part of our audit, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

The management of the Town of Blandford is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by them are required to assess the expected benefits and related costs of control procedures. The objectives of such a system are to provide reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with required authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may still occur without being detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Additional Offices:

Nashua, NH • Elsworth, ME • Andover, MA

Our study and evaluation was not designed for the purpose of expressing an opinion of the internal accounting control structure and would not necessarily disclose all weaknesses in the system. However, as a result of our study and evaluation, and in an effort to be of assistance to the Town, we are submitting for your consideration a number of comments and recommendations intended to improve operations and internal accounting control.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company, P.C.

Greenfield, Massachusetts

May 2, 2003

CURRENT YEAR ISSUES

1. IMPROVE CONTROLS OVER TOWN DISBURSEMENTS

During our testing of controls over Town disbursements, we selected 25 vendor disbursements and noted the following weaknesses:

- Numerous payments were made based on documentation that consisted of other than an original invoices (i.e., copy, fax, statement).
- Two instances in which no invoice could be located.
- Several instances in which a reimbursement was made to a Town employee for purchases made which included sales tax.
- One instance in which Massachusetts General Laws Chapter 30B "The Bid Law" was not adhered to (i.e., three telephone quotes were not obtained).

We recommend the Town take immediate steps to address these weaknesses. The steps should include, but not be limited to, the following:

- Require adequate supporting documentation prior to the payment of bills. This includes using only original invoices which are approved by the appropriate department head. This will reduce the risk that payments are made for goods or services that are not actually received or that duplicate payments are made.
- Require direct payments to vendors utilizing the Town's tax exempt status to avoid the payment of sales tax.
- Improve employee awareness of MGL Chapter 30B requirements and strictly enforce adherence.

Implementation of these suggestions will improve the Town's internal controls over disbursements and reduce the risk of errors or irregularities occurring and going undetected.

2. ESTABLISH MORE AGGRESSIVE TAX COLLECTION POLICY

The Town does not follow an aggressive policy for collecting delinquent taxes. Massachusetts General Laws provide specific timetables for the lien and foreclosing of properties for non-payment. The Town has not been performing these procedures as aggressively as permitted by statute. The Town has delinquent taxes dating back to fiscal year 1989. The existence of old receivables results in the loss of revenue from the increased interest rates of liened properties. Also, the Town risks losing a secured interest in the property in the event the property is sold or the taxpayer files for bankruptcy.

We recommend the Town establish a policy to be more aggressive in pursuing delinquent accounts. This will result in an improved financial condition of the Town.

3. IMPROVE ENCUMBRANCE PROCEDURES

Encumbrances (the portion of the current year budget carried forward for expenditure in the subsequent year) should be based on real obligations. Generally, these obligations take the form of purchase orders, contracts, or salary commitments that were anticipated but not realized in the current budget and for which a part of the appropriation is reserved. Typically, these commitments are evidenced by either an open purchase order or contract or a formal written request from a department head to encumber funds.

Our testing of the Town's reserve for encumbrances found no documentation to support the amounts encumbered.

We recommend the Town only encumber funds for known current obligations which are supported by an appropriate department request, open purchase order, or contract. We further recommend the Board of Selectmen require the Town Accountant to report all proposed encumbrances for approval.

4. IMPROVE WATER USER CHARGE COMMITMENTS PROCESS

Our audit revealed that water user charge commitments issued in fiscal year 2002 were actually for fiscal year 2001 usage. Additionally, these commitments were issued significantly after the time period for which services were provided. The first commitment in fiscal year 2002, issued for usage from July 1, 2000 to December 31, 2001, was not issued until June 29, 2001 (a six-month delay). The second commitment in fiscal year 2002, issued for usage from January 1, 2001 to June 30, 2001, was issued on February 2, 2002 (a seven month delay).

As a result, the Town's water enterprise fund is collecting fees for services provided six to eight months in arrears. This situation results in poor cash flows and is also responsible for the enterprise fund's reduced retained earnings balance.

We recommend the Town develop procedures to ensure water usage bills are issued within 30 days of a billing period's end. This will increase cash flow and improve the fund's returned earnings balance.

5. RECONCILE ALLOWANCE FOR ABATEMENTS (OVERLAY)

The Assessors' Office does not maintain an independent balance of the allowance for abatements (overlay) accounts but instead relies on the general ledger. A good internal control system dictates that the Assessors' Office maintain a balance of allowance for abatements and that this balance be periodically reconciled to the general ledger. As a result, there is assurance that all abatements granted are properly recorded in the general ledger and in a timely manner.

We recommend the Assessors' Office maintain a continuous record of all abatements and reconcile the balance of this record with the general ledger on a regular basis.

6. OBTAIN PROPER APPROVAL WHEN ABATING UNCOLLECTABLE ACCOUNTS

Our testing of real and personal property abatements revealed that the Town had abated numerous outstanding bills attributed to unknown property owners. These abatements were done without documented prior approval from the State (Commissioner of Revenue) as required by Massachusetts General Laws Chapter 58, Section 8.

In the future, we recommend that all tax bills determined to be uncollectable be abated by the proper legal procedures, which require a request from the Town's Board of Assessors to the Commissioner of Revenue and subsequent written approval.

7. INVESTIGATE POSSIBLE MASSACHUSETTS GENERAL LAWS CHAPTER 268A VIOLATIONS

Massachusetts General Laws Chapter 268A governs the conduct of public officials and employees regarding financial interest in Town contracts. Our audit revealed one instance of an employee, who also operates a local company, being paid for services rendered as a vendor. This situation may involve violations of MGL Chapter 268A.

We recommend the Town further investigate this incident and report any violations to the State Ethics Commission. Additionally, we recommend the Town adopt a policy to ensure all future Town contracts involving a public official and/or employee will fully comply with MGL Chapter 268A, including retaining any documentation to support compliance in the case of questioned contracts.

8. REVIEW PROCEDURES FOR ENTERING EXECUTIVE SESSIONS

Our review of the Board of Selectmen's meeting minutes for the period July 1, 2001 through July 21, 2003 revealed several instances in which the Selectmen entered into executive session without following the appropriate procedures. Massachusetts General Laws Chapter 39 Section 23 states: "No executive session shall be held until the governmental body has first convened in an open session for which notice has been given, a majority of the members have voted to go into executive session and the vote of each member is recorded on a roll call vote and entered into the minutes, the presiding officer has cited the purpose for an executive session, and the presiding officer has stated before the executive session if the governmental body will reconvene after the executive session." We noted that in several instances a roll call vote was not taken, the purpose for an executive session was not stated, and there were no statements as to whether or not the Board would reconvene after the executive session.

We recommend the Board of Selectmen follow the aforementioned procedures prior to entering into executive sessions.

9. IMPROVE CONTROLS OVER DEPARTMENTAL RECEIPTS

The Town currently does not have formal written policies and procedures for departments to follow for collecting and remitting departmental receipts. The lack of formal policies and procedures increases the risk that errors or irregularities could occur and go undetected.

We recommend the Town establish formal written departmental receipt policies and procedures. These policies and procedures should address, at a minimum, the following: the uniform format of receipt records and receipt logs, establishment of audit trails, frequency of remittances to the Treasurer, and overnight security.

We further recommend the Town Accountant perform periodic internal audits of the various departments to assure compliance with the policies and procedures that are adopted. This should result in improved controls over departmental receipts and reduce the likelihood of irregularities occurring.

10. IMPLEMENT RECONCILIATION PROCEDURES FOR KEY GENERAL LEDGER ACCOUNTS

Our inquiries found that several key general ledger accounts (including accounts receivable, payroll withholding and debt) are not reconciled on a regular (monthly/quarterly) basis.

Reconciliation of general ledger balances to supporting documentation and adjustments of activity and records is integral in ensuring the accuracy of the Town's accounting records.

We recommend the Town establish formal procedures to reconcile these key general ledger accounts on a monthly basis. This will provide additional assurance that accurate information is provided to Town management and will reduce the likelihood that errors or irregularities could occur and go undetected. This will also reduce the effort required to close the books at year end.

11. IMPROVE INTERNAL CONTROLS IN CERTAIN KEY DEPARTMENTS

A key component of any financial statement audit is the evaluation of internal controls. This evaluation is accomplished through inquiry, observation and testing. The following weaknesses were noted as a result of our evaluation of controls in several key Town departments:

Treasurer's Office:

- Certain departments do not remit receipts in a timely or consistent manner.
- Dual signatures are not required for large checks.

Tax Collector's Office:

- No control log is maintained which summarizes balances of outstanding receivables enabling easier reconciliation between the Collector and the general ledger.
- The Collector's Office is accessible to many others in Town Hall.
- The tax collection software package password is known to several Town employees in addition to the Tax Collector.
- Tax payment stubs do not indicate whether payment was made by cash or check. This makes it difficult to document the audit trail over currency.
- There is no clear trail of daily receipts to the turnover to the Treasurer.

Town Accountant:

- The Town's general ledger is accessible to numerous Town employees and officials, thereby weakening the separation of duties between the accounting function and other Town functions such as the treasury.

We recommend the Town review, in conjunction with the above-noted deficiencies, the Town's overall internal controls in order to create an environment where the risk to Town assets is acceptably minimized.

12. INCLUDE LIBRARY TRUST FUND ACTIVITY IN TOWN'S GENERAL LEDGER

The Town has traditionally reported balances for various library trust funds in its general ledger as well as including them in the Treasurer's quarterly cash reconciliation reported to the State. The balances are recorded based on information provided at year end by the library Board of Trustees. Balances are adjusted from year to year through general entries as no activity is recorded in the Town's general ledger. In fiscal year 2002, the balances were not updated, resulting in erroneous general ledger and Treasurer cash balances.

Because the Town is assuming a fiduciary duty over the library Trust Funds, we recommend the activity and resulting balances for the library Trust Funds be recorded in the Town's general ledger. This activity can be recorded on a periodic basis based on supportable information provided by the library Board of Trustees. Implementation of this recommendation will provide assurance that the balances reported by the Town for the library Trust Funds are accurate and supportable, and that sufficiently detailed activity is recorded in the Town's general ledger.

13. CONSIDER UPGRADING INTERNET CAPABILITIES

Our inquiries found that the Town has extremely limited internet access.

Because many State report filings are required to be done electronically and many more will be in the future, we recommend the Town consider increasing its internet capabilities. Not only will this allow the Town to comply with future reporting requirements, but it will also avail Town employees of numerous informational sites available from various Federal, State and local agencies.

14. ESTABLISH TRAVEL-RELATED ADMINISTRATIVE REGULATIONS

The Town does not maintain formalized regulations to provide departments with documented guidance over travel-related administrative policies and procedures. As a result, inconsistencies may exist between departments with respect to such issues as:

- Prior approval of travel and conference attendance
- Travel and expense reimbursement limits
- Approval of travel and expense reimbursement

We recommend the Town develop formal regulations to provide current guidance over travel-related administrative policies and procedures. This should result in improved Town-wide consistency over travel-related expenditures.